

# Tax Incentive Evaluation: Prescription Drug Sales Tax Exemption

DOAA summary of report prepared by Georgia State University's Fiscal Research Center

## BACKGROUND

In 1984, Georgia enacted a state and local sales tax exemption for prescription drugs, glasses and contacts, as well as any insulin obtained without a prescription. The exempted state sales tax rate is 4%, while the average local sales tax rate is 3.37%, according to the Tax Foundation. The provision—O.C.G.A. § 48-8-3(47)—is commonly referred to as the prescription drug sales tax exemption.

This review was requested by the House Ways and Means Committee and performed in accordance with O.C.G.A. § 28-5-41.1. Georgia State University's Fiscal Research Center (FRC) prepared the report.

## ECONOMIC ACTIVITY

Sales tax exemption is targeted to consumers, not companies. Therefore, the economic impact is a result of the additional money consumers can spend on goods and services.

While the prescription drug sales tax exemption was not created for the purpose of economic development, the increased spending by consumers benefiting from the exemption does result in additional jobs and economic activity. The figures to the right are estimated for FY 2021 by FRC, though the figures do not include a consideration of opportunity costs.

O.C.G.A. § 28-5-41.1 requires an analysis of net economic activity, which includes the opportunity cost of the forgone revenue. If the exempted tax revenue had been collected and expended by the state and local governments, FRC estimated the creation of 16,812 jobs and economic output of \$1.72 billion.



## REVENUE

The exemption is estimated to grow from approximately \$852 million in FY 2021 (combined state and local government revenue expenditure) to FY 2021 to \$938.2 million in FY 2023. In 2023, the resulting economic activity is estimated to bring in \$33.0 million in state revenue and \$13.4 million in local revenue.

FRC estimated that the alternate use of the revenue in FY 2023 would generate \$53.2 million in state revenue and \$12.2 million in local revenue.

## COST

The Department of Revenue reported **negligible cost** associated with the exemption.

## PUBLIC BENEFIT

The exemption **lowers the price of prescriptions**, making the cost of needed healthcare more affordable for Georgians.

The exemption on prescriptions and other health-related items makes Georgia's sales tax less regressive. Lower income households spend a greater portion of their income on prescriptions than higher income households. For example, the 4% tax savings represent 0.34% of the income of those making less than \$15,000. By contrast, it represents just 0.05% of the income of households with incomes between \$100,000 and \$150,000.